

CWB Organic Marketing: What are the Options?

A Discussion Paper for Farmer Consultations

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March 9, 2000

Dear Organic Grower:

As a follow-up to the Moving Up Market conference on organic grain held in Regina in November 1999, I am pleased to advise that during April, 2000, the CWB will be conducting consultations with the organic industry about potential changes in the marketing of organic wheat and barley under CWB authority. Given the rapid expansion of organic markets and the recent acceptance of national organic standards, the opportunity arises to proactively revisit the CWB's existing policy on organic grains and identify areas for innovation. In-depth discussions with and feedback from organic farmers will help ensure that potential changes in organic marketing meet farmers' business needs and add value to organic farmers' efforts.

Attached to this letter is a discussion paper which summarizes the current issues in organic grain marketing and suggests several options for change and innovation. These include, but are not limited to, a Fixed Price Contract option that would enable earlier payment to organic farmers, a direct farmer/CWB Producer Direct Sale process and prospective freight savings on bulk sales. The ideas in this paper are not exhaustive and they are intended to serve as a starting point for productive dialogue. It is recognized and our hope that other innovative thoughts and ideas will flow from the consultation process.

The consultation process will involve the opportunity for industry participants to forward written submissions and a series of meetings with the industry. CWB staff will travel and meet with various groups across the prairies upon request by telephone or in writing. A written summary/agenda of meeting topics is preferred in advance of each meeting. Organic farmers and other participants in the organic industry are encouraged to contact the CWB to request a group meeting and arrange timing/location details. Groups or individuals who are unable to meet with the CWB but who still wish to contribute to the process are encouraged to do so by written submission.

Please direct all meeting inquiries and proposed meeting agendas/times to Rosa-Lynne Way at the CWB by March 31st, 2000. Written submissions are preferred by April 15th, 2000. Ms. Way can be reached through the following addresses:

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The CWB is committed to developing a marketing policy for Western Canada's organic industry for and with the participation of western

Canadian organic farmers. I await your feedback on this challenging issue and thank you in advance on behalf of the Board of Directors and staff of the CWB for your participation in the process.

100-03539/

Sincerely,

Adrian Measner
Executive Vice-President, Marketing

Go Directly to the Discussion Paper

Questions? Comments? E-Mail:
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March 2000

Introduction

The purpose of this paper is to generate feedback from farmers about potential changes in the marketing of organic wheat and barley under CWB authority. Given the rapid expansion of organic markets and the recent acceptance of national standards, the timing is opportune to re-evaluate the current approach. This paper builds on a document put forward by the CWB in 1996, which identified a separate organic pool and an exemption as possible ideas for change. Since then, CWB legislation has changed, farmer elections have been held and the organic industry has expanded. Some of the key questions are: What use, if any, should be made of a fixed price contract option and/or direct farmer-CWB transactions in order to improve the process of producer direct sales? How soon, if at all, should volume-based export sales begin to move through lower-cost bulk handling and transportation systems? Is there a role for the use of supply chain management in bringing together the certifying bodies of the organic industry? Consistent with the democratic representation farmers now have on the CWB Board of Directors, the CWB is committed to developing organic marketing policy that meets the needs and preferences of the majority of organic farmers. Feedback on these and other issues is necessary to ensure that the direction taken by the CWB on its marketing policy is consistent with what farmers want.

Background

Organic farming in Canada continues to expand as new markets are developed for organically grown produce. Premiums for organic versus commercial grades of wheat can be significant. Main markets for Western Canada include the U.S., Japan, Europe and Canada. Total organic wheat and durum sales from Western Canada were 16,100 tonnes in 1998-99. In the short to medium term growing demand may continue to outpace supply.

The organic industries have been working with the Canadian Food Inspection Agency (CFIA) to establish a set of national certification standards for the organic industry. These have been agreed to and are expected to be implemented over the next few years.

The CWB currently has a limited presence in organic marketing. Companies and other marketers originate and sell organic grain at commercial grade prices plus privately negotiated organic premiums. At present, organic premiums are neither captured by nor paid out through the CWB pool accounts. Until recently, producers had to go through the Producer Direct Sales (PDS) procedure to sell organic wheat or barley.

In 1998, selling options outside PDS sales became available to organic producers. Saskatchewan Wheat Pool and Paterson established organic elevators and began buying organic grain directly from producers. Currently, Farm Grow Organics is building a storage facility and mill to take delivery of organic grain, and other companies are considering becoming involved. The CWB continues to work closely with these companies to encourage a wider range of options for organic farmers.

Is organic wheat a good candidate for single desk selling?

Under the current system, the CWB has no role in the final pricing for organic grain to importers. Competition between various private exporters has been and continues to pressure prices for organic grain. This effect can be observed in the variation in premiums received by organic farmers over time and between organizations.

Can reduced competition between exporters increase farmgate prices for organic farmers? The answer in the short-term is affirmative for prices, but uncertain for returns. While there would be an increase in the prices paid by importers at port position, premium prices may not make it back to farmers if the basis from farmgate to port position increases. The administrative costs of single desk selling are usually small when spread over large volume sales (e.g. CWB administrative costs in 1998-99 were 7.5 cents per bushel for wheat). However, given total 1998-99 organic sales of Canadian wheat and durum of 16,107 tonnes (see table below), costs would be spread over a limited volume. The question is whether the benefits of reduced price competition between sellers of organic wheat offset any increase in costs.

Another key consideration is that the organic industry likely needs to reach a critical mass in order to develop properly and increase the number of organic elevators. An expanded CWB role would mean that some of the profits companies are currently earning would be captured by the CWB and passed back to farmers. Since this may reduce companies' incentive for further investment in the organic industry, a question is whether an increase in prices would be worth possible slower establishment of organic elevators.

Sales by Destination of Canada's Organic Wheat and Durum

	Canada	Asia-pacific	Europe	Other	U.S.	Total
Wheat						
1996-97	1,723	159	5,993	-	5,084	12,959
1997-98	885	235	2,894	-	7,362	11,376
1998-99	2,188	308	5,881	180	5,207	13,764
1999-00*	1,126	54	2,196	-	901	4,277
Durum						
1996-97	89	-	958	-	1,588	2,635
1997-98	-	-	1,321	-	2,334	3,655
1998-99	27	-	1,197	-	1,119	2,343
1999-00*	27	-	1,441	-	537	2,005
Wheat and Durum						
1996-97	1,812	159	6,951	-	6,672	15,594
1997-98	885	235	4,215	-	9,696	15,031
1998-99	2,215	308	7,078	180	6,326	16,107
1999-00*	1,153	54	3,637	-	1,438	6,282

*Aug 1 to Nov 20, 1999

Commercial/Organic Product Risk

While there is no doubt that the clear majority of organic farmers treat the integrity of their product very seriously, it is equally clear that the incentive for misrepresentation could be high. Premiums for organic versus conventional grades of wheat that would otherwise be of similar quality can be significant. Conventional grades of grain can theoretically be passed off as organic product, since organic and non-organic kernels of the same class are visually indistinguishable and also cannot be distinguished by testing the wheat itself. In other words, whether wheat is organic or conventional is largely a matter of the trust behind documented

certification for which little scientific testing is available. Current safeguards include on-farm certification, the accompanying paper trail as the product moves through the system, and the fact that managers of organic facilities have a reputational incentive to be extremely vigilant in upholding the integrity of organic shipments.

Timing of national standards

The timing of when the agreed-upon national standards will be implemented is uncertain. Although national standards have now been passed (but not implemented), there are a host of political and financial interests that will have to be resolved prior to successfully completing the move to one set of standards from the ten-plus that exist at present. The ideal situation from a marketing perspective would be for a government agency or a single entity representing the entire industry to take on the responsibility of central certification. Hopefully national certification occurs within a few years although more pessimistic views have anticipated beyond 2005. At this time, fragmentation of the industry remains a significant hurdle.

What would the ideal solution look like?

Clearly, there are a number of trade-offs necessary in developing CWB organic policy and so no one perfect solution is obvious. However, it is clear that an ideal solution would meet the following criteria:

- **Premium prices.** Producers receive the highest farmgate prices possible.
- **The needs of organic farmers are met.** Organic policy must developed in consultation with organic farmers.
- **Investment in organic facilities should be encouraged.** CWB presence should not make it unattractive for handling companies to enter into the organic industry.
- **Clear line of grading accountability.** Misrepresentation penalties should be properly directed to responsible parties and impose no costs on others (e.g. participants in CWB pool).

What are the options?

There are a number of features that could be used to innovate CWB organic marketing policy. A central objective of consulting with organic farmers is to develop feedback in terms of prioritizing a number of items that could be brought together in various combinations to formulate direction for change. Four suggestions are presented as a starting point in order to encourage productive debate.

1. Independent Producer Direct Sales (PDS) with Fixed Price

Contract (FPC) option. Farmers who choose to market their grain directly through a PDS sale could (1) do so without grain company involvement and (2) could conclude the transaction on a single day without waiting for interim and final payments. The CWB would issue the cash ticket and deal directly with organic farmers in facets of the PDS sale. A cash-up-front FPC pricing option would be developed for organic producers participating in the PDS in order to resolve the cash flow issues of the current system.

2. CWB pays organic premium via separate organic initial payment and FPC pricing option in wheat pool account. The CWB would establish organic grades within the wheat pool account (e.g. 1 and 2 CWRS Canada Organic with protein premiums). Organic premiums/spreads above conventional grades would reflect organic premiums throughout the marketing year. Farmers could (1) choose to

enter the pool and receive initial, interim and final payments for the relevant organic grade, or (2) choose a cash-up-front pricing option for the relevant organic grade.

3. Pay farmers freight savings on CWB bulk organic sales. The difference between containerized freight versus bulk handling by railcar and ocean vessel from mid-point Saskatchewan to a Northern European port ranges from \$15.00 to \$50.00 per tonne. The CWB would begin to execute bulk sales for organic wheat and barley subject to developing a process to overcome accreditation/logistical concerns. Farmers would receive the savings in freight either through higher CWB payments or increased cash premiums from organic elevators and mills.

4. CWB pays organic premium via separate pool account. The CWB would establish a separate pool account(s) for organic wheat and barley. Farmers could choose to receive initial, interim and final payments or could choose a cash-up-front pricing option. The trade-off of this option versus establishing separate grades within the wheat pool account is the potential volatility in year to year prices due to relatively small volumes of organic grain. For example, if half the organic pool account in one year consisted of one bulk export sale priced on a single day, then the spread of organic over commercial grades in that particular year could be built more on the timing of the single bulk sale than on the average values of organic products during the 12-month period. While prices from a separate pool versus non-separate pooled prices even out in the long run, prices under a separate pool could be worse in bad years and better in good years.

Should an exemption for organic wheat and barley be an option?

An exemption is usually taken to mean that domestic mills would be able to buy organic wheat without CWB involvement and private organic marketers would be given export licenses at zero cost. If an exemption were presented as an option to organic farmers, it could not be done right away since there is no clause in CWB legislation to allow an exemption and the legislation would therefore have to be amended.

The main concern with offering an exemption for organic wheat and barley is the lack of a practical and enforceable mechanism to prevent farmers from passing off commercial grades as organic grain in order to access the exemption. The utter lack of affordable safeguards at borders and domestic mills virtually guarantees that large quantities of non-organic wheat and barley would also have an effective exemption from the CWB as there would be strong price incentives for widespread misrepresentation of commercial grades as organic grain. In addition to lowering pooled returns for farmers growing commercial grades, this should raise a troubling issue among organic farmers. How would the integrity and price of organic grain be affected if 100,000 tonnes of commercial grades were loosely passed off as organic grain from Western Canada and then began to appear in various markets? While some buyers would be able to effectively distinguish between the two, the environment of uncertainty created for new buyers and some existing buyers would be a strong selling disadvantage.

Summary

The CWB wishes to encourage debate on the issues described in this paper as well as any other changes that organic farmers view as important to the future of the industry. Consistent with the democratic representation farmers now have on the CWB Board of Directors, the CWB is committed to developing organic marketing policy that meets the needs and preferences of the majority of organic farmers. As noted in the cover letter attached to this document, a series of farmer

consultations is to begin prior to seeding for the 2000 crop. Direct feedback is necessary to ensure that the direction taken by the CWB on organic marketing is consistent with organic farmers' marketing needs.

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